

# **Policy Panel on International Banking and Macroprudential Spillovers**

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Joint IBRN-IMF Conference  
Washington, April 19, 2017

## 1a: How important are international spillovers of macroprudential instruments?

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- **Results from a large-cross-country study of the *International Banking Research Network (IBRN)* suggest: **NOT VERY.****

  - Some prudential policies spill over internationally through banks.
  - The transmission differs by types of banks and types of funding flows.
  - Banks' responses to regulatory changes are heterogeneous.

- **Note that the study does **not** look at welfare effects of spillovers!**
- **Spillovers may be larger (or become larger) than the study suggests:**
  - Spillovers may increase if macroprudential tools are used more frequently.
  - The study looks at loan volumes only – other indicators (prices, risk) may change as well.
  - The study does not distinguish the *reasons* why prudential instruments are used.

## 1b: Should this affect our perspective on the appropriateness or application of these tools?

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- **NO** because cross-border spillovers are not the only metric to assess the desirability of (macro)prudential measures.
- A **welfare assessment** needs to take the goal of macroprudential measures into account.
  - Reduce domestic lending growth → Weak spillovers may be desirable?
  - Shift market shares from weakly to strongly capitalized institutions. → Strong spillovers might be desirable?
- **BUT**, perhaps, results showing weak cross-border spillovers indicate that, overall, the effectiveness of (macro)prudential policies has not been large?
  - This may require re-thinking the design of macroprudential policies.

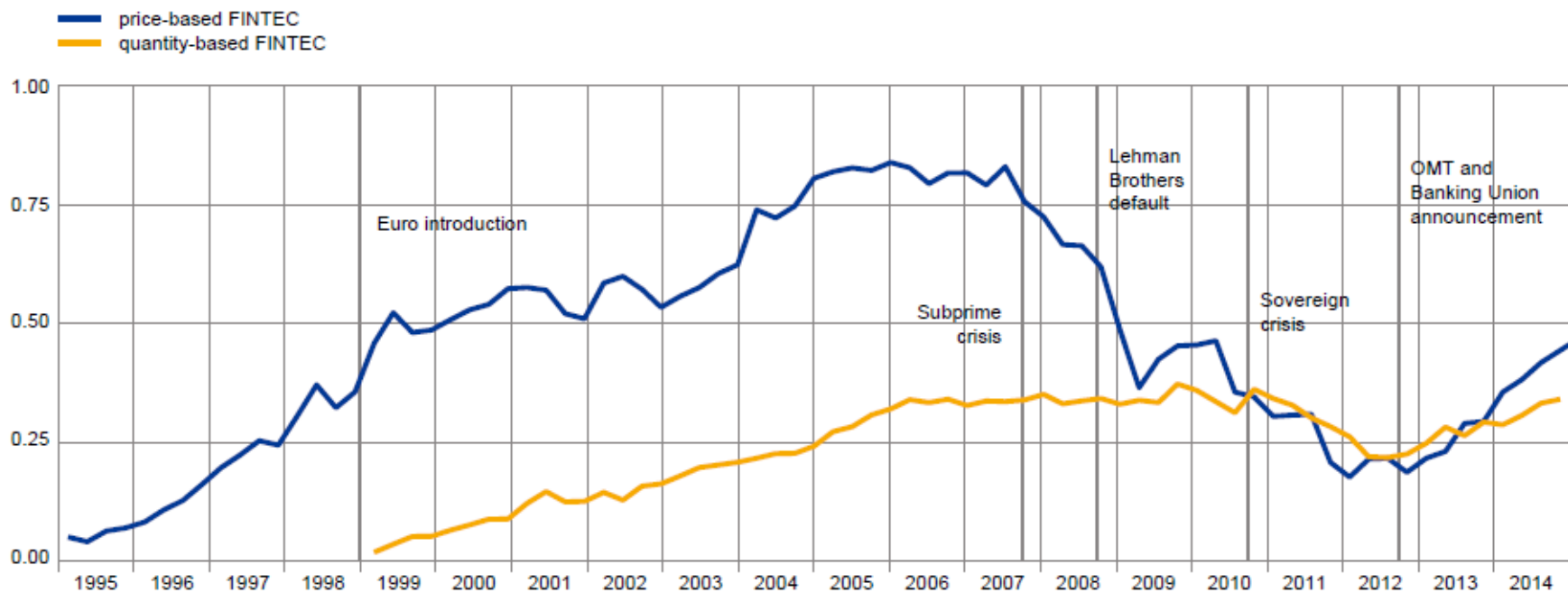
## 2: What are the policy implications of international spillovers for macroprudential policymakers? Is there scope for reciprocity?

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- **Macroprudential policy aims at strengthening the resilience of the financial system and at reducing systemic risks – by internalizing systemic risk externalities.**
- **Cross-border capital flows and global shocks give rise to externalities – which do not stop at borders!**
  - National policies can give rise to collective action problems (Viñals and Nier 2014).
  - International coordination of macroprudential policies is needed (IMF-FSB-BIS 2016).
  - Multilateral, regional, and bilateral approaches can be combined to address cross-border implications (IMF 2013).
  - Financial stability requires a common standard for resilience and international cooperation (Cecchetti and Tucker 2015).

# The degree of financial integration in Europe is higher now than 20 years ago – despite the financial crisis.

## Price- and quantity-based FINTECs



Source: ECB.

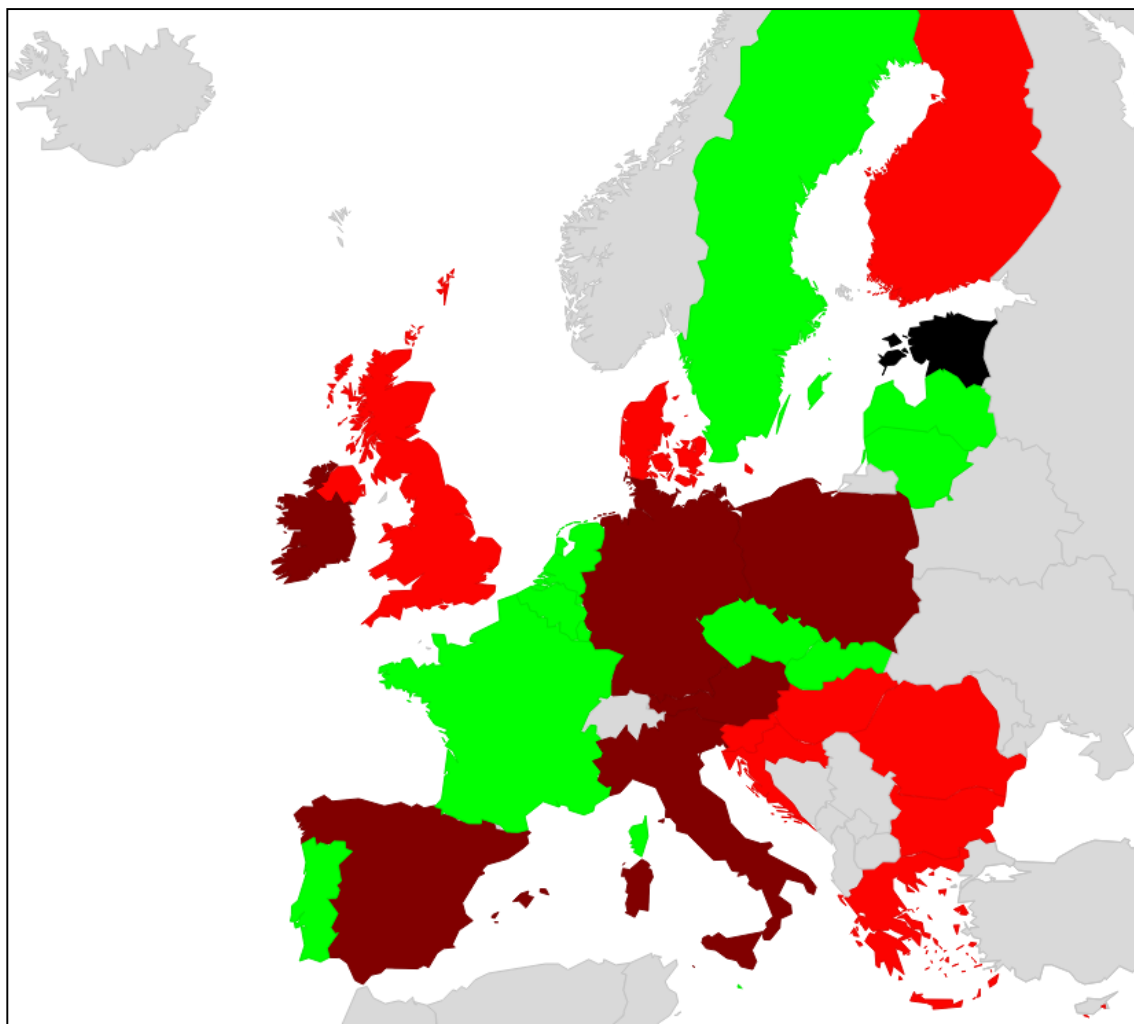
Notes: The acronym FINTEC stands for FINancial INTEgration Composite. The price-based FINTEC aggregates ten indicators covering the period first quarter 1995 – fourth quarter 2014, and the quantity-based FINTEC aggregates five indicators available from the first quarter of 1999 to the third quarter of 2014. For a detailed description of the FINTEC and its input data, see the Statistical Annex.

# Reciprocation of macroprudential measures in Europe

<b>Category A:</b> Strong expectation that reciprocity applies.	a) <b>Systemic Risk Buffer (SRB)</b> for domestic risk positions b) Higher <b>risk weights</b> for real estate lending c) <b>LTVs</b> for domestic real estate loans
<b>Category B:</b> Ad-hoc-decision	<b>Systemic risk buffer</b> for foreign positions and Pillar II measures
<b>Category C:</b> No reciprocity expected	<b>Systemic risk buffer</b> for individual institutes

- **Out of 125 measures** in the EU, **25** have so far been applied across countries.
- **Evidence on effectiveness is limited so far.**

# Reciprocation of macroprudential measures: The case of the Estonian Systemic Risk Buffer (2016)



- Activating Country
- Reciprocating Country
- Non-Reciprocating Country
- No notification submitted

Source: ESRB, Deutsche Bundesbank.

## 3a: What data and information are needed to improve monitoring and surveillance mechanisms around prudential instruments?

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- Data requirements are defined by the needs of a **structured policy process**:
  - 1) **Availability of data**: Needs to be planned before the measure is implemented
  - 2) **Quantification of policy target(s)**: Map indicators into measurable targets
  - 3) **Identification of intermediate objectives** (e.g. credit growth)
  - 4) **Assign instruments** (e.g. liquidity ratios, capital buffers, risk weights) to objectives (Ex ante evaluation)
  - 5) **Ex-post evaluation** (based on pre-specified policy objectives)

## 3b: Do you feel issues are adequately addressed, for instance in the G20 Data Gaps Initiative?

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- **The G20 have made big steps forward at their meeting in Baden-Baden:**

*We welcome the recommendations of the Inter Agency Group on Economic and Financial Statistics (IAG) for **sharing and accessibility of granular data**. We look forward to the joint report of the FSB and IMF on the overall progress of the Data Gaps Initiative by our meeting in Washington, D.C. in October 2017.*

*We also welcome the work of the IMF in consultation with the FSB and the Bank for International Settlements (BIS) to promote information sharing by compiling a **publicly available macroprudential policy database**, building on the IMF's existing infrastructure.*

- **Now, we will have to deliver!**

## 4: How do you assess the current institutional set-up in addressing challenges arising from (prudential) spillovers through global banks?

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- **The international dimension is crucial to internalize systemic risk externalities and to enhance the stability of the system:**
  - But there is no need for complete international **coordination**.
- **Common principles for international **cooperation** should apply:**
  - Minimum regulatory standards need to apply globally.
  - Reporting systems should be transparent: common data standards, information about regulation *and* activities
  - Ensure common standards for the evaluation of regulatory measures
- **We can make better use of the existing infrastructure:**
  - Common templates for policy evaluation
  - Repositories of evaluation studies
  - Making better use of existing datasets
  - Enhanced cooperation with academia

# References

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